

SMALL BUSINESS TAX CUT ACT OF 2012

The Small Business Tax Cut: Good News for California

The best way to boost economic growth and get people back to work is through small business growth. Over the past 17 years, small businesses with fewer than 500 employees have generated 65% of the new jobs in this country.¹ Yet under the current tax code, small businesses are faced with enormous burdens that are sapping their capital. Irrespective of whether they pay taxes at the corporate or individual level, small businesses can face up to a 35% federal tax rate.

H.R. 9, the Small Business Tax Cut, will help small business owners retain more capital, invest in their businesses and create more jobs. Under the proposal, small businesses would be allowed to deduct 20% of their income from taxes irrespective of how they are organized, up to 50% of their W-2 wages (in some cases distributions made to partners may be treated as W-2 wages for these purposes). So, whether you are organized as a corporation or you are one of the 75% of small businesses that operate as a pass-through, you will benefit from this new deduction.

How it Works: For simplicity, consider the example of a small business that under current law would pay a 35% federal tax on \$100 of income, resulting in a \$35 tax bill. Under the House Republican proposal, the small business would be able to deduct 20% of its income from tax (20% of \$100 = \$20), subject to the 50% W-2 wage limitation. The small business would then pay the same 35% tax on the remaining \$80, resulting in a \$28 tax bill. Under the House Republican proposal, the small business immediately saves \$7 in federal taxes.

The non-partisan Joint Committee on Taxation has estimated that H.R. 9 will benefit over 22 million small business employers across the United States reducing their taxes by almost \$46 billion. H.R. 9 is consistent with the budget plan just adopted by the House and was part of the Pledge to America.

What the Small Business Tax Cut Means for California:

As of 2009, in California, there are 691,479 small businesses with between 1 and 500 employees employing 6,541,800 individuals.²

The top three industries by employment:

- Over 809,000 employees in accommodation and food services
- Over 805,000 employees in health care and social assistance
- Over 660,000 employees in manufacturing

--Over--

¹ Small Business Administration, Office of Advocacy. <http://www.sba.gov/sites/default/files/sbfaq.pdf>

² Small Business Administration, Office of Advocacy. 2011 Small Business Profile for the States and Territories. <http://www.sba.gov/advocacy/848/41391>

Of the small businesses in California with between 1 and 500 employees:

- 99,626 are women-owned and they employ 811,052 individuals³

In addition to these small businesses, in 2009 California was home to 2,440,762 sole proprietorships.⁴ Many of these self-employed small businesses will also benefit from the 20% Small Business Tax Cut.

It is not just a cliché that getting small businesses growing again is the key to our economic recovery. Consider that:

- From 2005 to 2008, small business created a net total of 391,672 new jobs in California
- But from 2008 to 2009 a net total of 488,614 small business jobs were lost.⁵

The Small Business Tax Cut is Supported By:

Academy of General Dentistry
American Academy of Pediatric Dentistry
American Association of Oral Maxillofacial Surgeons
American Association of Orthodontists
American Dental Association
American Wholesale Marketers Association
American Supply Association
Associated General Contractors
Coalition of Franchisee Associations
Dunkin' Donuts Independent Franchise Owners
Independent Organization of Little Caesars® Franchisees
Independent Electrical Contractors Brokers of America
Small Business and Entrepreneurship Council
Interlocking Concrete Pavement Institute
International Sign Association
Long John Silver's Franchisee Association
National Association of Convenience Stores
National Beer Wholesalers Association
National Franchisee Association
National Precast Concrete Association
National Solid Waste Management Association
World Golf Foundation
Forging Industry Association
North American Association of SUBWAY® Franchisees, Inc.

Acushnet
American Academy of Periodontology
Golf Course Superintendents Association of America
American College of Prosthodontists
American Truckers Association
Americans For Tax Reform

Burger King
Club Managers Association of America
EA Independent Franchisee Association, LLC
Heating, Air-Conditioning & Refrigeration Distributors International (HARDI)
Independent Insurance Agents & Hispanic Dental Association
Industrial Fasteners Association
International Franchise Association
KFC
National Association of Chemical Distributors
National Association of Home Builders
National Council of Chain Restaurants
National Golf Course Owners Association
National Ready Mixed Concrete Association
National Stone, Sand and Gravel Association
Professional Golfers Association of America
Truck Renting and Leasing Association

³ U.S. Census Bureau. Survey of Business Owners. 2007. <http://www.census.gov/econ/sbo/#CBO>

⁴ U.S. Census Bureau. 2009 Nonemployer Statistics. <http://censtats.census.gov/cgi-bin/nonemployer/nonsect.pl>

⁵ Small Business Administration, Office of Advocacy. 2011 Small Business Profile for the States and Territories. <http://www.sba.gov/advocacy/848/41391>